



OFFICE OF MANAGEMENT AND BUDGET

Office of Federal Procurement Policy

Value Engineering

AGENCY: Office of Management and Budget, Office of Federal Procurement Policy

ACTION: Proposed revision to Office of Management and Budget Circular No. A-131, “Value Engineering”

SUMMARY: The Office of Federal Procurement Policy (OFPP) in the Office of Management and Budget (OMB) is proposing to revise OMB Circular A-131, *Value Engineering*, to update and reinforce policies associated with the consideration and use of Value Engineering (VE). VE is an effective technique for cutting waste and inefficiency -- helping Federal agencies save billions of dollars in program and acquisition costs, improve performance, enhance quality, and foster the use of innovation. The proposed revisions are designed to ensure that the Federal Government has the capabilities and tools to consider and apply VE techniques to the maximum extent appropriate.

DATE: Interested parties should submit comments in writing to the address below on or before [insert date 60 days after publication in the Federal Register].

ADDRESSES: Comments may be submitted by any of the following methods:

- Online at: <http://www.regulations.gov>
- Facsimile: 202-395-5105
- Mail: Office of Federal Procurement Policy, ATTN: Curtina Smith, New Executive Office Building, Room 9013, 725 17th Street, NW., Washington, DC 20503.

Instructions: Please submit comments only and cite “Proposed Revision to OMB Circular A-131” in all correspondence. All comments received will be posted, without change or redaction,

to www.regulations.gov, so commenters should not include information that they do not wish to be posted (for example because they consider it personal or business confidential).

FOR FURTHER INFORMATION CONTACT: Curtina Smith, OFPP, csmith@omb.eop.gov.

Availability: Copies of the proposed revision to OMB Circular A-131 are available on OMB's website at http://www.whitehouse.gov/omb/circulars_default/

SUPPLEMENTARY INFORMATION:

A. Overview

Value Engineering (VE) refers to an organized effort to analyze functions of systems, equipment, facilities, services, and supplies for the purpose of achieving the essential functions at the lowest life-cycle cost consistent with required levels of performance, reliability, quality, and safety.

Industry first developed VE during World War II as a means of continuing production despite shortages of critical materials by analyzing functions to generate alternative materials or systems to accomplish the required tasks at a lower cost. The Federal Government subsequently adopted this tool as a mechanism to incentivize contractors to continually think of ways to drive greater efficiency in their production methodologies by allowing them to share with the Government in the savings generated by their value engineering change proposals. VE can reduce program costs and optimize performance.

Currently, several Federal agencies have reported life-cycle savings through the use of VE in a broad range of acquisition programs, such as those involving defense systems, transportation, construction, engineering, environmental, and manufacturing projects. According to annual reports of VE activities submitted by Federal agencies to OMB, value engineering generates

billions of dollars in savings and cost avoidance annually for the Federal Government. For example, the Department of Defense (DOD) reported savings of nearly \$2 billion in fiscal year (FY) 2009 and \$3.4 billion in FY 2010. The Department of Transportation's Federal Highway Administration reports that annual savings for Federally-funded state construction projects have ranged from \$1.8 to \$3.2 billion between 2005 and 2009. The Department of State reports that it has used VE to identify hundreds of millions of dollars in total life cycle savings since FY 2008 - saving an average of \$46 for every one dollar invested in VE studies. Opportunities for savings exist at other agencies.

OMB Circular A-131 requires agencies to establish VE programs so that the agencies will realize the benefits of using VE techniques to reduce nonessential contract and program costs. OMB first issued the Circular in January 1988 (53 Fed. Reg. 3140), and the Circular was last revised in May 1993 (58 Fed. Reg. 31056). The Circular specifically requires agencies to: (1) identify a focal point within each agency to monitor, manage and maintain data on agency VE programs; (2) establish criteria and guidelines for screening programs and projects which might benefit from the application of VE techniques; (3) develop guidelines to evaluate VE proposals; (4) actively solicit VE ideas from contractors; and (5) emphasize, through training and other means, the potential of VE to reduce unnecessary costs. Since issuing the Circular in 1988, OMB has issued three memoranda in April 1995, October 1996, and February 1997 emphasizing the importance and benefits of VE and reminding agencies of their responsibilities under the program. As a result of proposed revisions in this notice, the previously-issued OMB memoranda have been overtaken by events and are hereby formally rescinded.

In this notice, OFPP is proposing to revise Circular A-131 to reflect present-day buying strategies and practices, such as performance-based service contracting, to ensure that the Federal Government is effectively considering and taking full advantage of VE, whenever appropriate, to cut waste and inefficiency and promote greater fiscal responsibility.

The revisions that are proposed in this notice would:

- Reinforce the importance of giving meaningful consideration to VE to save money and improve performance. The proposal states that VE should be considered for all appropriate agency program management activities and capital assets (as defined in OMB Circular A-11 and the Capital Programming Guide), as well as to appropriate supply, service, architect-engineering, and construction contracts. Through the use of VE, agencies successfully identify and remove nonessential functions and associated costs, ensure realistic budgets, and improve and maintain acceptable levels of quality.
- Explain that VE can be used with various contract types and methods of contracting. The proposal explains that VE can be incorporated into the acquisition strategy to improve results achieved from contracts. VE can be used when contracting for services, when using various contract delivery methods, such as design-build, or when using performance-based specifications.
- Explain that VE can be used with other management tools. The proposal explains that VE can be used with other management tools designed to improve processes, such as lean six sigma.

- Increase the threshold for the application of VE. The proposal would raise the threshold from \$1 million to \$2 million, primarily to take into account inflation since the \$1 million level was adopted. Agencies would have the discretion to set lower thresholds for those projects that have a significant impact on agency operations.
- Strengthen training. The proposal states that agencies should provide training to appropriate program and contract staff in the application and implementation of VE on contracts. OFPP will work with the Federal Acquisition Institute and the Defense Acquisition University on appropriate training materials for the acquisition workforce.
- Reduce reporting requirements. The proposal would reduce from 20 to 5 the number of projects to be reported annually to OMB and would update the reporting format to include a description of the methodology used to calculate savings. The proposal would also eliminate Part III of the Circular in its entirety; Part III has required a detailed cost summary of program results from inception to date.
- Remove outdated terminology and update references. The proposal would remove outdated terminology and update references to include currently prevalent methodologies and techniques such as performance-based acquisition, the design/build project delivery process, and integrated product/project/process teams.
- Remove automatic Inspector General (IG) review. The proposal would remove the provision requiring agency IGs to conduct an automatic audit of VE programs every two years. We expect management review of agency VE programs to be considered over time through internal control assessments of acquisition functions conducted in connection with

OMB Circular A-123, *Management Accountability and Control*. Agency management should also work with their IGs, as appropriate, to consider when IG review of VE activities may be warranted.

OMB requests comments on these proposals as well as on other aspects of the Circular.

Joseph G. Jordan
Administrator for Federal Procurement Policy

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